

MENDOCINO COUNTY EMPLOYEES RETIREMENT ASSOCIATION INTEREST CREDITING AND UNDISTRIBUTED EARNINGS POLICY

I. PURPOSE AND BACKGROUND

The purpose of this policy is primarily to provide benefit security for members of the Mendocino County Employees' Retirement Association (MCERA) and secondarily to achieve and maintain stable employer contributions that are as low as possible. The authority of the Board of Retirement (Board) in such matters is governed by the provisions of the County Employees' Retirement Law of 1937 ('CERL'), Government Code sections 31591 and 31592 (et. seq.), and other provisions of state and federal law applicable to MCERA.

II. OBJECTIVES

The objectives of this policy are to:

1. Provide for long term, stable funding of the retirement system through the reasonable and prudent allocation of earnings; and
2. Provide guidance to MCERA staff to ensure appropriate allocation of earnings to reserve accounts, including the appropriate allocation of undistributed (excess) earnings.

III. DEFINITIONS

"Available Earnings" are the most recent annual earnings of the fund calculated on an accounting methodology pursuant to Government Code Sections 31591 and 31592 (et seq.), plus any fund balance in Undistributed Earnings including the Contingency Reserve. Specifically, Available Earnings are the annual net value of:

- a) Interest, dividend and principal payments on fixed income investments;
- b) Gains and losses on the sale of fixed income investments;
- c) Gains and losses on the sale of equities;
- d) Aggregate market value of investments in excess of the cost value of those investments;
- e) Recapture of commissions;
- f) Rental income;
- g) Balance of Accrued Undistributed Earnings
- h) Changes decreasing Contingency Reserve

Less

- i) Building expenses on real estate held for investment, occupancy and rental purposes;
- j) System expenses;
- k) Changes increasing Contingency Reserve.

MENDOCINO COUNTY EMPLOYEES RETIREMENT ASSOCIATION INTEREST CREDITING AND UNDISTRIBUTED EARNINGS POLICY

"Undistributed Earnings" are the accrued earnings of the fund calculated on an accounting methodology after payment of system expenses and in excess of earnings posted to the appropriate valuation reserves (i.e., Members Deposit Reserve, County Advance Reserve, and Retired Members Reserve) and the Contingency Reserve.

IV. POLICY GUIDELINES

Available earnings of MCERA will be allocated prior to December 31st of each fiscal year in an amount not to exceed on half (1/2) of the actuarial assumed earnings rate for that fiscal year, and prior to June 30th of the same fiscal year in an amount not to exceed the total actuarial assumed earnings rate for that fiscal year. The earnings will be allocated in the following order:

1. Payment of system expenses; then
2. Credit of regular interest to the following valuation reserves (all at an equal rate):
 - a) (Active) Members Deposit Reserve;
 - b) County Reserves; and
 - c) Retired Members Reserve; then
3. Replenish the Contingency Reserve to an amount no less than 1% of assets; then
4. Credit the balance to Undistributed Earnings.

Undistributed Earnings of MCERA will be allocated in the following order:

1. Credit to County Advance Reserve and Retired Members COLA Reserve so as to reduce the unfunded accrued actuarial liability ('UAAL') of the system until an actuarial funded ratio of 100% exists; then
2. Credit the balance to the Unallocated Fund Balance ~~for any use consistent with the CERL and approved by the Board of Retirement~~ as a reserve against future economic downturns.

V. POLICY REVIEW

This Policy is subject to change in the exercise of the Board's judgment. The Board will review this policy at least every two years to ensure that it remains relevant and appropriate and consistent with state and federal laws and regulations. In the event of legislative changes to the pertinent sections addressed in this policy, the Board will review the policy as appropriate.

VI. POLICY HISTORY

The Board adopted this policy on June 16, 2010.

The Board reviewed and revised the policy on September 16, 2015